Agri-Food Policy Matters Quarterly

-A George Morris Centre Publication on Canadian Agricultural Policy Issues-

Contents – Fall 2012

Policy Chatter

In mid-September the FPT Ministers of Agriculture, at their annual meeting in Whitehorse, Yukon, concluded their discussions on the new Growing Forward II (GF II) policy framework for business and non-business risk management programming for the 2013-18 period. Given the consultations and discussions with the Canadian agri-food community, the directions and reallocation of federal/provincial funding was not that surprising. The Ministers moved in the direction of their 2011 St. Andrews Statement, by reducing the funding to the national BRM programming, and moving an amount of the "savings" towards the non-BRM (innovation, market development, competitiveness) programming, with the details yet to be finalized. Based upon responses from Provincial Ministers and from a number of farm/commodity groups, there remains some dissatisfaction with the shift in funding away from BRM programming, but also some positive comments on additional expenditures on the innovation, competitiveness programming.

A number of key challenges remain. The market outlook for a number of farm commodities is not as moderate as in 2011. The current hog market challenges and producer responses across Canada are likely to be the first of several market/policy challenges to the Whitehorse Agreement, although these may not be sufficient to bend that agreement. Determining the best program options for the new bilateral non-BRM programs will be an additional challenge, as most groups and most governments, have not yet determined the optimal results desired from such initiatives, or which types of programming best achieve those results. This will be a work in progress in a number of provinces, and for parts of the

agri-food sector, notably for those in the Canadian food industries.

These developments should be watched closely, and then placed into the wider policy contexts of the Government of Canada's ambitious trade policy agenda, which includes the agri-food sector, and developments in policies by Canada's competitors, which may alter the domestic and global markets facing Canadian farmers/food companies. These are critical when looking at the investment opportunities and constraints facing these industries, and the trade-offs between these opportunities, or indeed between competing policy goals for the sector. All in all, good to have GF II starting, but a good deal of work to come at all levels.

People

The Whitehorse meetings also brought several new members to the FPT Ministerial meetings. The Honourable Lyle Stewart now represents Saskatchewan and he was one of the reluctant signatories to the agreement. The Honourable Norm Letnick representing British Columbia was appointed just before the meetings, and did participate.

A new federal Deputy Minister, Suzanne Vinet, accompanied Minister Ritz. Ms. Vinet is well known to many FPT agri-food observers given her past experiences with AAFC, before undertaking senior management roles in other federal Departments. Ms Vinet will bring that experience and a heightened focus on innovation to her DM role.

A new DM for British Columbia was appointed after the Whitehorse meetings, Mr. Derek Stucko, who joined the Department just prior to a new spending restraint in BC. Another new face is Karen Chan who was appointed ADM for the Ontario Agriculture/Food ministry just prior to the Whitehorse meetings. A new Agriculture/Food Minister representing Quebec was not able to attend the Whitehorse meetings, as the Honourable Francois Gendron (also Deputy Prime Minister in the National Assembly) was just appointed at that time.

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Canadian Hog Situation: Feed Cost Woes, Policy Challenge

The drought of 2012 in the US has taken a toll on Canadian hog production. An indicator of this is the financial failure of two of Canada's largest hog producers in September 2012; Big Sky Farms went into receivership, and Puratone went into CCAA.

In this article, we consider the metrics of the current situation, prospects, indicators of injury, and challenges in formulating policy to bring relief to the industry.

Current Situation

The situation that generated operating losses in 2012 was driven by drought conditions in the US and the accompanying increase in corn prices. The sharp increase in feed costs forced some liquidation of hogs in both Canada and the US; the impact was to depress hog prices. The resulting squeeze is illustrated in Figures 1 and 2. In early June 2012, anticipated new crop corn prices, as indicated by the December futures, were just over $US 5/bushel and December hog prices were in the range of $US 80/cwt; this formed the basis for future expectations of hog profitability conditions and feeder pig pricing at that time. Through the summer as the drought took hold, corn prices spiked upward by the end of July, expected fall corn prices had increased to over $US 8/bushel. At the same time (and in response) hog liquidations

began to occur, depressing hog prices. While Figures 1 and 2 show that the situation has mitigated somewhat, a severe profitability squeeze was set up that extends well into 2013.

The Past Shapes the Present

Hog production is a margin business, which is notoriously cyclical, and carrying on through periods of loss is a part of the business. Thus, producer balance sheets are intrinsically linked to operating returns, so that equity built up in the good times can allow hog businesses to survive periodic losses. Or at least that's the theory.

The hog production sector went through four very bad years, from last half of 2006 through the first half of 2010, in which industry finances were seriously depleted. Problems included a well-known litany of challenges including high feed grain prices, the appreciating Canadian dollar, H1N1 and COOL. Each of these factors was out of the control of the industry and not related to Canada's competitive standing. During 2010 and 2011, the industry slowly began to recover, and 2012 looked promising.

Figure 1: December Corn Futures, Weekly, US ₵/bushel

Source: Chicago Board of Trade

Figure 2: December Lean Hog Futures, Weekly $US/cwt

Source: Chicago Mercantile Exchange

An indicator of this is the status of hog farm equity coming into the current crisis. Table 1 shows that starting in 2001, both categories of hog farms presented increased in equity through 2006. From 2006, the market value of equity began to decline. Between 2006 and 2010, the extent of this decline was about 20%. Essentially, between 2006 and 2010, on average these Canadian hog farms gave back the equity they had built up since 2001.

Another aspect of these results that frame the 2012 situation is the cash flow swept away. Figure 3, presents working capital reserves and earnings before interest, taxes, depreciation and amortization (EBITDA) for hog farms in excess of $1 million in sales. It shows that working capital per farm declined by more than half, between 2007 and 2009 before recovering somewhat, and that the decline in working capital was proportionally more than the decline in EBITDA. Thus, the cash available to navigate an operating returns squeeze had been badly depleted immediately prior to 2012.

Policy Context: Solving the Right Problem

Large operating losses in 2012 present a stark challenge for the hog sector; the financial failures of two large producers in western Canada are ample evidence of that. Programs already exist that anticipate the prospect of periodic and severe losses. AgriStability was developed for precisely this type of situation. In the current crisis, the hog industry has worked with government to improve access and build upon existing programs. This includes:

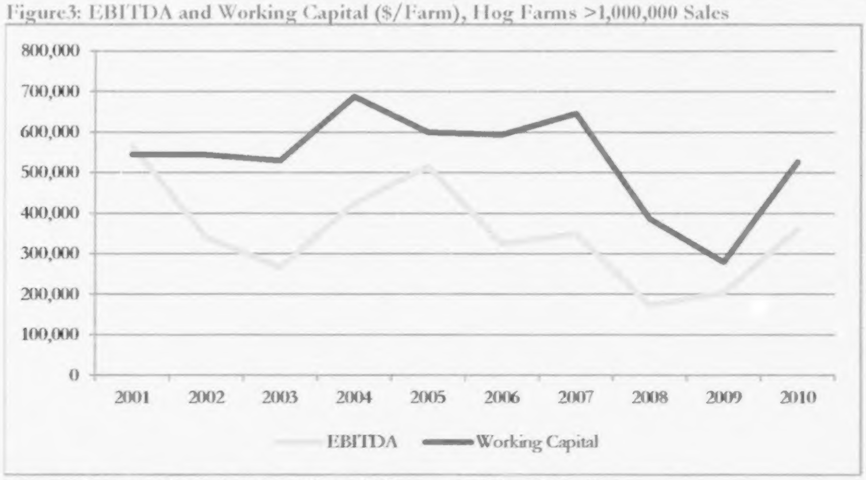
Table 1 Net Worth, Hog Farms Sales $500,000-$1,000,000 and >$1,000,000

	$500,000-$1,000,000	**>$1,000,000**
2001	1,059,953	4,107,448
2002	1,210,043	4,102,806
2003	1,098,374	4,436,250
2004	1,063,671	4,233,259
2005	1,262,271	4,961,653
2006	1,319,751	5,066,040
2007	1,155,522	4,445,860
2008	819,938	3,355,610
2009	1,089,407	3,005,925
2010	1,066,863	3,979,660
Change 2006-10	-19.2%	-21.4%

Values Reported at market value, unaudited

Source: Statistics Canada Farm Financial Survey

Figure3: EBITDA and Working Capital ($/Farm), Hog Farms >1,000,000 Sales



Source: Statistics Canada Farm Financial Survey and Tax Data Program

- Accessing interim payments under AgriStability
- Fast-tracking of access to hog producers' AgriInvest accounts
- Accessing cash advances through the Advance Payments Program
- Deferral of payments on existing government and other loans

However, the existing policy approach assumes that program funding will complement existing farm equity, to help farmers get through the "rough spots". It also assumes that the bulk of production comes from small/medium-sized farms, and that these rough spots, while potentially severe, will be short-lived or episodic. The design of programs like AgriStability, with its payment tiers, reference adjustment mechanism, and payment caps reflect these assumptions.

What makes the prospects for hog production stark is these assumptions don't apply in this situation. Widespread operating losses date back to late 2006, with only a brief period of abatement in 2010-11, so the downturn can hardly be called periodic. The sustained period of losses hollowed out many hog farm balance sheets, as indicated declining hog farm equity and working capital. As evident in the attention drawn to Big Sky and Puratone financial failures, much of the hog supply in some regions comes from very large farm entities, not small and medium-sized ones.

For the most part, policy is addressing the situation with programming that cushions short-term operating losses. In a sense, it is addressing the wrong problem. The problem here is structurally weak finances, caused by consecutive losses over years.

Constraints on Programming

Programming to assist the hog sector must confront the constraints acting on policy. The first is that any subsidies from the government to the hog industry present the prospect of trade actions by the United States. The second constraint is that governments are fiscally strained, and generally unwilling to top-up or add to existing programs.

If the primary problems are financial, it is less clear that these constraints are binding. Policy instruments like loan guarantees and new repayable loans should be relatively innocuous from the trade perspective, and of limited government expense. By leaving them open to application, producers self-select themselves based on need, as producers who grow their own feed have been insulated from the feed cost spike compared with hog-only farm enterprises.

Finally, some program parameters could also be adjusted to reflect the fact that much of the hog supply comes from a few, large farms for which program caps make the existing program set less meaningful. For an ailing hog business that immediately needs $3.5 million in cash to carry on, a program with a payment cap of $1 million is of little value.

For many hog farms, the challenge will be to navigate the current crisis, and then to restructure themselves with a balance sheet containing more contingent working capital and relatively less in terms of hard assets/equity in play. In retrospect, past expectations of hog cost/returns volatility were inconsistent with Canadian hog farm financial structure. Similarly, some reflection is required on policy to stabilize this industry, given our experience with profound price/cost volatility, prolonged periods of loss, and more concentrated farm structure.

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Regulations to Fix Regulations: The case of the Processor Supply Allocation Agreement

The Chicken Farmers of Ontario recently announced the launch of their Processor Supply Allocation Agreement. It is a four party agreement, between the Quebec and Ontario chicken marketing boards and the two provincial processor associations. The agreement effectively places greater controls on live chicken movement between provinces. It does so via procedural amendments in the procurement/allocation rules. The agreement is symptomatic of fundamental challenges in the system and is the latest step in addressing long standing issues of allocation.

Operations of the System

The volume of chicken to be produced in Canada is determined at the national level by a committee of industry representatives, led by the Chicken Farmers of Canada (CFC). The national volume is then distributed provincially. The provincial volumes allocated are essentially based on historic market shares. Provincial marketing boards then allocate the provincial quota to producers, based on their individual quota holdings. The detail of this process is clearly defined through national agreements and regulation. The price of the live bird is regulated in a separate process by the provincial marketing boards.

What is not nearly as well defined is how processors of chicken in a province are allocated supplies of live chicken for processing. The federal and provincial supply management regulatory plan largely ends at the farm gate, with the live chicken. In the first 10-20 years of chicken supply management, during the 1980's and early 1990's, processors competed amongst themselves for the available supplies of live chicken for processing. In a situation of rapidly growing demand for chicken and ample processing capacity, this competition among processors for live chicken led to price premiums being bid into the system.

A number of processors resented having to pay premiums over and above the regulated price, in order to secure supplies of live chicken. While producers enjoyed the benefits of price premiums, producer marketing boards were concerned about the perception of premiums in terms of producer equity and government reaction. They sought a regulatory solution to reduce or even eliminate price premiums. Thus, many provinces moved towards an arduous process of assigning supplies to processors in various manners, as a way of reducing or eliminating premiums.

Economics of Regulated Allocation

The attempts to regulate allocation at the provincial level have exposed weaknesses in the system. Regulated allocation to plants can work well, provided that processor demands for live chicken mirror the growth averages reflected in national and ultimately, provincial allocation. It produces difficulties for those processors whose live chicken demands are rapidly growing beyond national averages. In order for these processors to secure their live chicken demands, they must go outside of their province's allocation system to another province to obtain supply (typically with a price premium). Of course, this then shorts the other province's market, and induces offsetting interprovincial purchases. So, rather than eliminate price premiums, regulating plant allocation only pushed premiums into the interprovincial trade.

It is instructive to pause and consider which processors are engaged in interprovincial chicken procurement and premium pricing behavior. It is primarily those processors which are growing at a rate in excess of their peers. Otherwise, regulated allocation from within their own province would satisfy their needs. The processors that were purchasing most of the product inter-provincially were

smaller, more agile firms that were serving niche markets, or had found profitable outlets either through added service or value offerings. In short, the innovators were the ones that needed to go inter-provincially to attain supplies.

Regulations to Fix Regulations

The only recourse to the limits of provincial allocation in chicken has been interprovincial movement. Some processors have been able to purchase chicken outside the province in order to augment supplies. In addition, processors that did not participate in the interprovincial market were left with lower base supplies as a result of those that did. This newly announced agreement between Ontario and Quebec would seem to plug that leak by effectively suppressing interprovincial movement. It thus protects supplies for those that did not procure interprovincially and it reduces or eliminates the associated premiums.

The trouble with this latest fix, however, is that by both fixing allocation to processors and limiting access to supplies in other provinces, it has the unintended consequence of reducing opportunities for new firms, new products, new technologies and new markets.

The suppression of interprovincial movement has now become policy via regulation. It is a classic example of regulation begetting more regulation. The policy question is whether price premiums and interprovincial trade are really such a black eye on supply management, at least when it is recognized that regulating them out comes at the cost of reduced market growth and product innovation. The George Morris Centre has long argued that market competition among processors within the supply managed system is best equipped to guide chicken to its highest and best use, and thus growth and innovation in the chicken industry, regardless of price premiums.

Properly appreciated, attempts by marketing boards to safeguard supply management by driving out market allocation of live chicken actually have the opposite effect, slowing growth and dampening innovation.

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Safe Food for Canadians Act – a Wind of Change

There is a lot happening in Canada's food safety system this year. In addition to the CFIA's efforts of modernizing its inspection system to move to an outcome based system, Bill S-11, the *Safe Food for Canadians Act* (SFCA) was introduced in Senate at the beginning of June 2012. In early November, The Standing Committee on Agriculture and Agri-Food completed its review and referred it back to the House of Commons for a third reading. It is expected to pass soon.

Canada's food safety system has often been criticized for being reactive and of not keeping up with new knowledge used by other countries, notably the U.S., where the American *Food Safety Modernization Act* came into effect in January 2011. As Canada's food safety system still relies on legislation that is in some cases almost 50 years old, Bill S-11 undoubtedly represents the biggest change in the system in a very long time.

The Bill

When the CFIA was created in 1997 by the *Canadian Food Inspection Agency Act*, federal inspection activities where brought together, but the acts and regulations that were previously created by Health Canada, AAFC and Fisheries and Oceans Canada were not consolidated[1]. While the *Food and Drugs Act* and regulations will remain a separate and

[1] Gnirrs, G. Food in Canada, September 2012.

significant piece of legislation for food safety and labeling, Bill S-11 consolidates the authorities of the Fish Inspection Act, the Canadian Agricultural Products Act, the Meat Inspection Act and the Food Provisions of the Consumer Packaging and Labeling Act. In doing so, the federal government intends for the CFIA to provide consistent oversight across all regulated food commodities. In theory, this consolidation of inspection authorities will make the work for inspectors easier. At present, when an inspector has to inspect a plant that processes vegetables and meats together the inspector has to enforce different regulations under several different statutes. Once Bill S-11 is implemented, this would no longer be the case.

Licensing and Registration

Repeatedly, it has been mentioned that the CFIA is much tougher on Canadian processors and producers than on importers. The assertion is that a level playing field is important. Bill S-11 will implement a licensing and registration system for importers, distributors and manufacturers for international and interprovincial agri-food trade. According to Albert Chambers from the Canadian Food Safety Supply Chain Coalition, this is a positive step, as more information will be available to regulators, the industry and consumers on where food is actually coming from and who is processing it. This is also an important prerequisite for enhanced traceability. Analysts have mentioned that "country of origin labeling is all over the map"[2]. How often do you see "imported by" on labels? It can be frustrating not to know the originating country of your food or by whom it was processed or produced. CFIA will have to address country of origin labeling under SFCA.

Tougher Penalties

Probably, one of the most highlighted points of S-11 is the implementation of tougher penalties for any food safety violations and the prohibition of resale of recalled food. The penalties increased significantly for a "summary conviction offence from a maximum $50,000 fine and/or six months' imprisonment, or $20,000 fine and three months' imprisonment, to a maximum $250,000 fine and/or imprisonment of not more than six months. For a subsequent offence, this is increased to a maximum of $500,000 and/or imprisonment of not more than 18 months"[3]. A penalty for knowingly or recklessly contravening any provisions of the bill has been established as well: "In the case of a summary conviction offence, the penalty for a first offence is a maximum $500,000 fine and/or 18 months' imprisonment; for a subsequent offence, the penalty is a maximum $1 million and/or imprisonment of two years". The bill also specifically addresses tampering. While the Criminal Code covers tampering as mischief, the SFCA will give enhanced authority to prosecute tampering and other threatening situations.

Alignment with the US

The CFIA notes that the proposed legislation intends to align Canada's food safety system with international trading partners, such as the *Food Safety Modernization Act* in the United States. As mentioned earlier, Canada's SFCA also proposes a licensing and registration system for importers, which is in line with this assertion. While the US legislation is spelled out much more clearly than the Canadian, it is likely that Canada will also move towards performance based standards. However, at this time it is not certain how this feature will be written into regulations.

What gives?

Generally, the bill is a step in the right direction. It has garnered support from the Canadian industry, which takes a generally

[2] Gnirss, G. Food in Canada, October, 2012.

[3] Legislative Summary of Bill S-11: Safe Food for Canadians Act: http://bit.ly/QTiE6e

positive view on the introduction of the bill. However, the Canadian Food Supply Chain Coalition notes that a roadmap for a comprehensive food safety system that will lay out a national strategy is still missing[4]. In addition, the new Bill places much more emphasis on HACCP systems. This will be a significant issue for small to medium processing firms, as HACCP plans are still implemented only sporadically. In order to prepare for the significant changes ahead, implementation of HACCP plans should be a priority.

With all of the above noted, some context is in order. It can be easily argued that competition and markets are much greater forces for food safety. The reputation of every food company is at stake every day. Especially for those companies selling under a strong brand name, they have much greater interests in the safety of their products.

In conclusion, the *Safe Food for Canadians Act* is a step in the right direction. Canada used to be world leader in food safety in the 90's, when HACCP was first implemented[5].

However, without a comprehensive roadmap we do not know where we are going. An effective and proactive food safety framework should encompass every major player across Canada; should work across provincial boundaries and include legislative and regulatory modernization and commitment and buy-in from all levels of the supply chain.

While the *Safe Food for Canadians Act* is the biggest change in a very long time, still a lot of uncertainty surrounds this issue. We will only know about the true extent and impact of this legislation when all the regulations are written and implemented. And that may take a while.

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Understanding CETA

The Canada – European Union Comprehensive Economic and Trade Agreement (CETA) negotiations were launched at the Canada-EU Summit in May 2009 as a result of a joint study released by the two governments in 2008 titled *Assessing the Costs and Benefits of a Closer EU-Canada Economic Partnership*. It found that there would be an annual $12 billion benefit to Canada, if such an agreement were negotiated. Trade Minister Fast has stated that these negotiations could be even more far-reaching than NAFTA, and will include trade in goods and services, investment, government procurement, regulatory co-operation, intellectual property, competition policy and environmental policies.

The government of Canada views this trade deal as attractive since it will gain greater access to over 500 million consumers and will diversify Canada's exports away from the United States and into another diverse and relatively rich market. Currently, the EU is Canada's second largest export market behind the US. In terms of agri-food trade, Canada exports primarily bulk agricultural products to the EU consisting mainly of grains and oilseeds, whereas it imports mostly processed food products from the EU.

The two countries completed another round of negotiations in October, with many of the chapters finalized, but the hard work is still left to be done on the contentious issues. In the 2011 election, Stephen Harper promised that CETA would be signed in 2012. With only a couple of months left and the real hard slogging left to come, Minister Fast has stated that that was a goal, but it seems highly

[4]Personal Communications with Albert Chambers, Executive Director at the Canadian Supply Chain Food Safety Coalition.

[5]The Canadian Quality Management Program (QMP) for seafood in 1992 was the world's first food inspection program based on HACCP.

unlikely that it will be accomplished. This hard slogging very much includes agriculture and any and all topics are on the table.

Agricultural Sensitivities

"Both countries have a long history of supporting their agricultural sectors with government programs and protecting their sectors from imports with tariffs and non-tariff barriers (NTBs)[1]". There are very specific agricultural opportunities that each jurisdiction is looking to obtain; these opportunities just happen to be in some of the commodities and products that the other jurisdiction has historically protected.

When the negotiations began in 2009, it may have been assumed that "many of the agricultural domestic support issues would have been taken care of during the DOHA Development Agenda"[2], including defining each countries' sensitive products. Due to the stagnation of DOHA, this now has to be hammered out in CETA negotiations.

Market Access

The EU has been clear that it wants greater access for its dairy products, especially specialty cheeses. Canada's interests are in its primary agricultural export products – red meats and grains and oilseeds. The EU would like to see an expansion of the tariff rate quotas (TRQs) for certain dairy products and has stated that it will only grant market access to red meats in return for dairy market access[3]. As with all trade negotiations, Canada has remained firm that it will support Canada's supply management system. However, it's looking more and more likely that adjustments to dairy TRQs may be negotiated as part of a deal. With the negotiations taking place behind closed doors, little is known about the specifics and it is hard to speculate on the size of TRQ adjustments that would satisfy the EU.

Not only do the tariff barriers need to be reduced to gain red meat access to the EU market, but NTBs must also be addressed in order to have any meaningful benefit. Formidable NTBs such as plant certification and SPS measures "have succeeded in ensuring that imports are a tiny share of the EU pork market[4]". It is also unclear how NTBs will be handled in these negotiations.

Rules of Origin

The EU is proposing fairly restrictive rules of origin. This is an issue for Canada due to the evolution of the integrated North American sector that could make it very difficult for automobiles, textiles, fish, seafood and certain agricultural products[5] to adhere to the EU's proposed rules.

Geographical Indicators

The protection of its Geographical Indicators (GIs) has become a major objective of the EU in both domestic policy, as a way to improve farm incomes, and trade policy. The EU would like to expand this form of intellectual property from wines and spirits to also include cheeses and cured meats[6]. The expansion of the EU's GIs into Canada could prove problematic for Canadian producers or

[1] Viju, C., W.A. Kerr and C. Mekkaoui. 2011. Everything is on the Table: Agriculture in the Canada-EU Trade Agreement. CATPRN Trade Policy Brief 2011-03. March 2011.

[2] Viju, C., W.A. Kerr and C. Mekkaoui. 2011. Everything is on the Table: Agriculture in the Canada-EU Trade Agreement. CATPRN Trade Policy Brief 2011-03. March 2011.

[3] EU Ambassador Matthias Brinkmann, April 2012

[4] Grier, K. et al. 2010. Assessment of the Market Potential of Alberta's Pork Products in the European Union. Completed for the Government of Alberta by the George Morris Centre and Gira Consultancy and Research.

[5] Pearson, D.H. 2012. The Comprehensive Economic and Trade Agreement (CETA) Presentation made to Bennett Jones.

[6] Viju, C. MT Yeung, and W.A. Kerr. 2012. Geographical Indications, Barriers to Market Access and Preferential Trade Agreements. CATPRN Trade Policy Brief 2012-01. March 2012.

third-party exporters of products into Canada. For example, the EU has recognized feta cheese as cheese that is only produced in Greece, therefore if Canada were to recognize the EU GIs then any producers of Canadian feta cheese, or countries (other than Greece) shipping feta cheese into Canada would not be able to market it as feta cheese[7]. If the US deemed that the GI resulted in a loss of market share in the Canadian market, a case could be brought to the NAFTA dispute settlement system[8]. The US has taken a hard line against GI's in its early trade discussions with the EU. Given its existing relationship with the US, this will constrain the extent to which Canada can be flexible on GI's.

Potential Opportunity

CETA stands to reduce barriers to trade in a large and wealthy market that Canada hopes to compete in. Despite the fact that the EU is largely a mature market, increased market access is a significant opportunity for the sector.

Although tariffs are only one aspect of improved market access, they are used as a proxy below to show where significant opportunities could lie[9]:

- Wheat is subject to an average MFN tariff of 12.8%
- Fresh/chilled pulses are subject to an average MFN tariff of 10.5%
- Oats are subject to an average MFN tariff rate of 89€/T
- The seafood, fish and shrimp sector is heavily restricted by high tariffs and TRQs[10]. The EU is the world's largest fish and seafood market; Canada is a significant exporter of seafood.
    - Frozen fish: 9.7% average MFN tariff rate
    - Shrimp: 20% average MFN tariff rate. Canada is currently the second largest exporter of shrimp to the EU, behind Thailand. If Canada's access could be improved through reduced tariffs then the sector's competitiveness may be improved over Thailand's. Through the ASEAN countries, Thailand is also in trade negotiations with the EU.

Canada's current agri-food exports to the EU are primarily bulk products as shown in the textbox on page 12, however there are also many opportunities for processed products. Some examples follow:

- Canola Oil: 4.8% MFN tariff rate. Canada is currently the second largest exporter of canola oil to the EU, behind the UAE.
- Pasta: Subjected to an average MFN tariff rate of 8.5%
- Processed Tomatoes: Subject to an average MFN tariff rate of 14.4%

The question becomes whether the Canadian food processing industry has the capacity to take advantage of the opportunities.

Importantly, securing access through CETA, which others lack, could be a significant competitive advantage in the EU market.

[7] Viju, C. MT Yeung, and W.A. Kerr. 2012. Geographical Indications, Barriers to Market Access and Preferential Trade Agreements. CATPRN Trade Policy Brief 2012-01. March 2012.

[8] Viju, C. MT Yeung, and W.A. Kerr. 2012. Geographical Indications, Barriers to Market Access and Preferential Trade Agreements. CATPRN Trade Policy Brief 2012-01. March 2012.

[9] MFN Tariff Rates were sourced from the WTO Tariff Download Facility. http://bit.ly/yTOaDo. The most recent year was used.

[10] Viju, C., W.A. Kerr and C. Mekkaoui. 2011. Everything is on the Table: Agriculture in the Canada-EU Trade Agreement. CATPRN Trade Policy Brief 2011-03. March 2011.

Canada-EU Trade, 2011 ($CDN)

Total Canadian Exports:	$40 bil.
Total Canadian Imports:	$52 bil.

Total Agriculture and Food Trade*

Canadian Exports:	$3.1 bil.
Bulk:	$2.1 bil.
Processed:	$1.0 bil.
Canadian Imports:	$3.8 bil.
Bulk:	$0.3 bil.
Processed:	$3.5 bil.

*NAICS: 111+112+311+3121
Source: Statistics Canada, Trade Data On-line

Relationship to TPP

Any access that Canada provides, or concessions that it makes, in CETA will set a precedent for TPP negotiations. Therefore "Canada is likely factoring in various TPP considerations as it formulates its 'end game' positions in CETA"[11], since the two negotiations will bring up similar sensitive issues. However, even if Canada provides increased access to the EU, US exporters have made it clear that they are seeking complete access for some specific agri-food markets.

Agriculture not the only Holdup

Despite the hurdles yet to be overcome in agri-food, the sector is not the only holdup. Currently Canada has visa requirements for the Czech Republic, Bulgaria and Romania. Since the passage of the deal will require individual EU nations' approval, these requirements could be a bottleneck to passage, as suggested by Matthias Brinkmann (EU Ambassador).

The extension of patent protection of drugs produced in the EU will also need to be agreed upon, as well as the issues surrounding government procurement. The EU is asking for access to provincial and municipal procurement contracts, but provincial governments have never been involved in trade negotiations in the past.

Canada's Overall Stake

On balance, an agreement with the EU, as is any new trade agreement, is fundamental to increasing agricultural productivity and rural economic development. A number of the key elements are the same opportunities the sector could experience with TPP: 1) trade liberalization through the reduction of tariffs and non-tariff barriers could support increased market share in the EU and a higher net price for Canadian exporters; and 2) since Canada already has a footprint in some of the key agri-food markets in the EU, market share will not be built from scratch[12]. And lastly, with the EU being so diverse and relatively wealthy, Canada has an opportunity to change its current trading patterns and provide more value added products.

CETA stands to be the first among major trade agreements conceived by the Government of Canada as part of an ambitious trade strategy. With major outstanding issues, and important precedents for TPP and a prospective US-EU trade agreement, CETA will be pressed to be completed on schedule and address its many complexities.

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[11] Inside US Trade. 2012. With Canada-EU FTA at Crucial Stage, Links to TPP Negotiations Seen. November 1, 2012.

[12] Stiefelmeyer, K. 2012. Understanding TPP. Agricultural Policy Matters Quarterly, Summer Edition. http://bit.ly/TTA8yU